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CORPORATION

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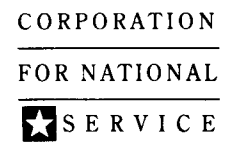
## OFFICE OF THE INSPECTOR GENERAL

Review of Corporation for National Service  
Award Number 95ADNDC003 to  
The National Alliance of Veterans Family Service Organizations

**This report is issued to CNS Management. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than October 8, 1997 and complete its corrective actions by April 12, 1998. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented or the amount of disallowed costs.**

**The Inspector General must approve any request for public release of the report.**

Office of the Inspector General  
Audit of Corporation for National Service  
Award Number 95ADNDC003 to  
The National Alliance of Veterans Family Service Organizations



Tichenor and Associates, under contract to the Office of Inspector General, performed a limited review of the National Alliance of Veterans Family Service Organizations' (NAVFSO) accounting systems and management controls to determine whether they are adequate for managing the award in accordance with Federal and grant requirements and for safeguarding Federal funds. We have reviewed the report and workpapers supporting its conclusions and agree with the findings and recommendations presented.

Tichenor and Associates found that the accounting systems and management controls of NAVFSO and its subgrantees were inadequate to report grant expenditures and to safeguard Federal funds. The conditions leading to this conclusion included:

- NAVFSO's financial management system was not adequate to produce reports of grant expenditures that are current, accurate and complete.
- The system of accounting controls of NAVFSO did not adequately safeguard Federal funds because controls over disbursements for travel reimbursements were weak.
- The accounting controls of the Veterans Benefits Clearinghouse (VBC), a subgrantee, were not adequate to prevent unallocable and unallowable costs from being claimed as grant expenditures.
- The program activities of the subgrantees were not adequately monitored by NAVFSO, the parent organization, because no procedures were established to collect data on accomplishment of program objectives.

As a result, we are questioning \$10,653 in costs claimed under the award. These and other matters are discussed in greater detail in this report.

In its comments on a draft of this report, CNS stated that it has been working with NAVFSO to resolve the financial system inadequacies identified in the report. NAVFSO generally agreed with the findings and stated that it had taken corrective actions. NAVFSO disagreed with the questioned costs. NAVFSO's response also included comments from VBC. Although VBC's response disagrees with the description of the conditions we are reporting, VBC acknowledges the errors we found, and in most cases, describes corrective actions.

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CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

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Inspector General  
Corporation for National Service

## **INDEPENDENT AUDITOR'S REPORT**

We performed a limited review, as described in the Scope and Methodology section of this report, of the National Alliance of Veterans Family Service Organizations' (NAVFSO) accounting systems and management controls. Our objective was to determine whether they are adequate and suitable to report grant expenditures in accordance with Federal requirements and to safeguard Federal funds. Our review covered Corporation for National Service (CNS) award number 95ADNDC003 in the amount of \$350,005 for the period from August 1, 1995 through December 9, 1996. The expiration date of the award is December 31, 1996.

### **RESULTS IN BRIEF**

We found that the accounting systems and management controls of NAVFSO and its subgrantees were inadequate to properly report grant expenditures and to safeguard Federal funds. Our conclusion is based on the following conditions:

- NAVFSO's financial management system was not adequate to produce reports of grant expenditures that are current, accurate and complete.
- The system of accounting controls of NAVFSO did not adequately safeguard Federal funds because controls over disbursements for travel reimbursements were weak.
- The accounting controls of the Veterans Benefits Clearinghouse (VBC), a subgrantee, were not adequate to prevent unallocable and unallowable costs from being claimed as grant expenditures.

- VBC's procedures for collecting, recording and reporting member service hours were inadequate to determine if members had achieved the requirement to receive educational benefits.
- VBC's method of allocating indirect costs to the grant was inadequate because the base period does not coincide with the period to which the costs are allocated.
- The program activities of the subgrantees were not adequately monitored by NAVFSO, the parent organization, because no procedures were established to collect data on accomplishment of performance objectives.

As a result, we are questioning costs of \$10,653 charged to the grant. These matters are discussed in greater detail in the Findings and Recommendations section of this report.

We provided CNS and NAVFSO officials a draft of this report for their comments on February 13, 1997. In its response of March 11, 1997, CNS stated that it has been working with NAVFSO to resolve the financial system inadequacies identified in the report. CNS' response is included as Appendix I.

In its letter of March 19, 1997, NAVFSO generally agreed with the findings and stated that it had taken corrective actions. However, NAVFSO disagreed with the questioned costs in Finding I. NAVFSO's response also included comments from VBC. Although VBC's response disagrees with the descriptions of the conditions we are reporting, VBC acknowledges the errors we found, and, in most cases, describes corrective actions. NAVFSO's letter (with VBC's letter attached) is included as Appendix II. The letter included additional information on NAVFSO's corrective actions. We have forwarded the information to CNS' Office of Grants Management.

## **BACKGROUND**

The National Alliance of Veterans Family Service Organizations (NAVFSO) is a non-profit District of Columbia corporation established on January 23, 1995. The headquarters and administrative offices are located in Washington, D.C. Membership of the alliance comprises 40 organizations that provide family oriented services such as family counseling and child development, among other programs, to veterans and active duty personnel.

NAVFSO's two main sources of funding are its AmeriCorps grant and a non-Federal grant from the Agent Orange Class Assistance Program. Additionally, minor supporting contributions are received from alliance member organizations.

There are three subgrantees participating in the AmeriCorps grant program: Veterans Benefits Clearinghouse, Incorporated (VBC), Roxbury, MA, a non-profit agency that serves veteran victims of post traumatic stress disorder and their families; Agent Orange Family Assistance Program of Utah State University, Logan, UT, which services veterans in the

Hopi and Navajo Indian nations; and the University Affiliated Programs Department of the University of Arkansas, Little Rock, AR, which services veterans' children, residing in the Ozark mountain region, with disabilities, special health needs and emotional problems.

On December 14, 1995, NAVFSO was awarded its AmeriCorps grant with an effective date of August 1, 1995. The AmeriCorps grant provides support for the Veterans Helping Veterans project, including funds for NAVFSO's own participation, as shown below:

**Summary of Awarded, Recorded and Questioned Costs  
June 30, 1996**

<b><u>Budget Categories</u></b>	<b><u>Approved Budget</u></b>	<b><u>Total Outlays</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Finding</u></b>
Section A -- Member Support Costs	\$169,472	\$ 58,800	\$ 886	III
Section B-F -- Operating Costs	<u>180,533</u>	<u>55,608</u>	<u>9,767</u>	I, II, III, V
Total Operating Costs <sup>1</sup>	\$350,005	\$114,408	<b><u>\$10,653</u></b>	
NAVFSO's Cost Sharing	<u>148,081</u>	<u>24,840</u>		
<b>Total Project Costs</b>	<b><u>\$498,086</u></b>	<b><u>\$139,248</u></b>		

<sup>1</sup> Child care costs for 20 corps members were not included as part of the operating budget because they are paid directly to the child care providers from CNS through the National Association of Child Care Resource and Referral Agencies (NACCRRRA). Also, educational awards of \$94,500 for 20 corps members were approved in the award budget but not included as part of the operating budget because they are paid through the National Service Trust.

**SCOPE AND METHODOLOGY**

We performed our review at NAVFSO's offices in Washington, D.C., and VBC's offices in Roxbury, MA. We performed the procedures listed below in evaluating management's assertion about the effectiveness of NAVFSO's accounting systems and system of management control over compliance with laws and regulations applicable to the grant during the period August 1, 1995, to the end of our fieldwork, December 9, 1996. We selected the June 30, 1996 FSR for our review as the most current FSR submitted as of the beginning of our fieldwork. Consequently, we reviewed transactions and identified questioned costs associated with the June 30, 1996 FSR.

Our procedures included:

- interviewing key management, accounting, and program personnel;
- reviewing NAVFSO's and VBC's organization charts, policy and procedures manuals, and their charts of accounts;
- reviewing single audit reports on NAVFSO's and VBC's financial statements and management controls;
- testing a judgmental sample of financial transactions related to the grant; and
- reviewing NAVFSO's oversight and monitoring of VBC and other subgrantees participating in CNS' grant.

We performed our review in accordance with *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States. However, our procedures were substantially less in scope than an audit, and accordingly, did not include elements essential to the expression of an opinion on management controls. Accordingly, we do not express such an opinion. Further, if additional procedures had been performed, other matters might have come to our attention that would have been reported. Also, projections of any evaluation of the management controls over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

## **FINDINGS AND RECOMMENDATIONS**

- I. NAVFSO's financial management system was not adequate to produce reports of grant expenditures that are current, accurate, and complete.

CNS regulations (45 CFR 2543.21 (b) (2)) require that NAVFSO maintain records that adequately identify the source and application of funds provided by the Corporation. Such records would include a general ledger, a budget-to-actual report, a record of cost sharing contributions, and time sheets that document actual employee activity for the grant.

We found that NAVFSO had no general ledger that collected, classified and summarized grant expenditures to support the June 30, 1996 FSR. An outside accounting service had been compiling their ledger, but, in May 1996, NAVFSO's Executive Director discontinued the service as part of an initiative to perform their own bookkeeping. Consequently, the only summary record was a disbursement ledger which did not show classifications by general ledger account or allocations to activities of separate grants.

We also found that spending of CNS grant funds was determined by the total remaining balance on the grant without regard to budget category. Additionally, we found that cost sharing contributions could not be identified from existing records and Financial Status Reports (FSRs) were not submitted timely. The three FSRs required for the period reviewed exceeded the 30-day deadline for submission by 60, 4 and 21 days, respectively.

Lastly, we found that claimed amounts for salary and benefits were supported by time sheets which segregated hours by separate activity but allocated hours based on the approved budget amounts instead of actual grant activity. As a result, we are questioning \$6,797, the total of salaries and benefits claimed by the parent organization (NAVFSO) as of June 30, 1996.

We recommend that CNS require NAVFSO to:

- Implement a general ledger that is a current, accurate and complete record of NAVFSO's financial transactions.
- Create and use a budget-to-actual report that compares budget categories to grant expenditures.
- Develop and implement procedures to document cost sharing contributions.
- Develop and implement procedures to collect subgrantee FSRs sufficiently in advance to compile the reports and submit them to meet the 30-day deadline.
- Use the time keeping system as designed to record actual grant activity.

In its response to a draft of this report, NAVFSO stated that it had implemented corrective actions to address a majority of these recommendations. Additionally, NAVFSO disagreed with the questioned costs of \$6,797 of staff salaries and benefits because they believe that in-kind cost sharing in the form of staff salaries and benefits sufficiently exceeded the required cost sharing amount. However, we found that NAVFSO's time keeping records were inadequate to support costs incurred for staff salaries and benefits allocated to the grant and have questioned the related costs. We recommend that CNS review the reported improvements in comparison to the reported findings and determine if they are adequate to report grant expenditures and safeguard Federal funds.

II. The system of accounting controls of NAVFSO did not adequately safeguard Federal funds because controls over disbursements for travel reimbursements were weak.

CNS regulations (45 CFR 2543.21 (b) (3)) require that NAVFSO establish effective controls and accountability for grant funds. We found that NAVFSO did not have a written travel policy establishing per diem rates or restricting travel costs to those generally recognized as ordinary and necessary under Federal grants. Also, we noted that NAVFSO's separation of duties was inadequate to prevent unreasonable expenditures.

We found that the former Executive Director authorized expenditures and signed checks for her own reimbursable expenses. We determined that she claimed travel costs that exceeded, by as much as 300 percent, the amounts recommended for meals and incidental expenses established by the Federal Travel Regulations (FTR). While the grant provisions do not specifically require NAVFSO to conform to the FTR, Federal regulations (OMB Circular A-122, Attachment A, subparagraph A3) require NAVFSO to consider Federal regulations as a restraint in determining the reasonableness of grant expenditures. We are questioning \$1,374 of these expenses because they were unreasonably excessive for travel reimbursed by Federal funds.

We recommend that CNS require NAVFSO to:

- Establish and enforce travel policies and procedures that limit the amounts for reimbursement to those reasonable when considering the Federal Travel Regulation as a guideline for meals, incidental and lodging expenses.
- Develop alternatives for approval of disbursements that strengthens controls by separation of duties.

In its response, NAVFSO stated that it agreed with the questioned costs and had implemented corrective actions to address our recommendations. We recommend that CNS review the reported improvements in comparison to the reported findings and determine if they are adequate to report grant expenditures and safeguard Federal funds.

III. The accounting controls of the Veterans Benefits Clearinghouse (VBC), a subgrantee, were not adequate to prevent unallocable and unallowable costs from being claimed as grant expenditures.

CNS regulations (45 CFR 2543.21 (b) (1) and (7)) require accounting records to be accurate and supported by source documentation. VBC submitted their June 30, 1996 FSR summarized from grant records. Our review disclosed that of \$29,601 in costs claimed, \$2,108 were unsupported and unallowable as follows:



**Summary of Questioned Costs - VBC  
June 30, 1996**

<u>Category</u>	<u>Questioned Costs</u>	<u>Reason</u>	<u>Notes</u>
Staff Salaries and Benefits	\$ 674	Unsupported	1
Living Allowances	886	Unsupported	2
Transportation	348	Unsupported	3
Other Operational Cost	<u>200</u>	Unallowable	4
<b>Total Cost - VBC</b>	<b><u>\$2,108</u></b>		

**Notes:**

1. We re-computed salaries and benefits paid of \$7,965 from the payroll summaries and determined that the reported cost of \$8,639 was overstated by \$674.
2. We re-computed member living allowances from the payroll summaries and determined that the reported cost of \$9,350 exceeded the amount paid of \$8,571 by \$779. The associated FICA and Worker's Compensation reported cost of \$1,084 exceeded the total on the payroll summaries by \$107. Total unsupported cost was \$886.
3. VBC provided documentation for only \$102 of member bus fare and mileage reimbursements in support of \$450 recorded, leaving \$348 unsupported.
4. VBC made a \$200 donation to a private youth program, sponsored by the employees of the City of Boston, which is an unallowable contribution (OMB Circular A-122, Attachment B, paragraph 8).

We recommend that CNS require NAVFSO to reimburse \$2,108 of costs we are questioning above and to develop and implement procedures to review accounting details of subgrantee reports to eliminate unallowable and unallocable costs from future submissions. We also recommend that NAVFSO assist VBC in developing and implementing policies and procedures that will produce accurate financial reports of grant activities that are supported by complete source documentation.

In its response, VBC acknowledged that recording errors occurred and that its Financial Status Report was inaccurate. Further, VBC stated it had implemented corrective actions. We recommend that NAVFSO review the reported corrective actions and determine if they are adequate to produce accurate financial reports.

IV. VBC's procedures for collecting, recording and reporting member service hours were inadequate to determine if members had achieved the requirement to receive educational benefits.

The subgrantee we visited, VBC, did not keep adequate records of member service hours. AmeriCorps grant special provision 15a requires VBC to maintain records sufficient to establish that AmeriCorps members have successfully completed the appropriate number of hours to be eligible for educational benefits. We found that VBC did not periodically update a master record or summary of members' earned and accumulated service hours.

We also found that the only compilation of service hours completed was not accurate. VBC prepared a summary of hours earned which was created to accompany the June 30, 1996, subgrantee FSR. We tested this summary for accuracy by recomputing the totals from the time sheets for VBC's seven members. For four of the members, we determined that the summary report understated the total by between 20 and 63 service hours as follows:

**Summary of Service Hours - VBC**

<u>Member</u>	<u>Time Sheets</u>	<u>Summary Report</u>	<u>Understated Hours</u>	<u>Understated Percent</u>
Morrison	20.5	0	20.5	100
Nkurmah	370.5	307.5	63.0	17
Shelton	376.5	353.5	23.0	6
Griffiths	<u>325.5</u>	<u>285.5</u>	<u>40.0</u>	<u>12</u>
<b>Total</b>	<b><u>1093.0</u></b>	<b><u>946.5</u></b>	<b><u>146.5</u></b>	<b><u>13</u></b>

Additionally, we noted that members prepare and submit two time sheets -- one for actual service hours and one for submission to payroll for living allowances. The summary record we examined had been compiled from notations of service hours earned on the payroll record which did not agree in all cases to the service hour time sheet total. The Program Director indicated that VBC made some errors in compiling the hours which caused the difference with our recomputations.

We recommend that CNS require NAVFSO and VBC to regularly compile and report member service hours earned from the service hour time sheets they submit. Additionally, because living allowances are fixed amounts for the period and are not dependent upon the number of service hours earned in a payroll period to determine the amount of the stipend, VBC should consider using a single time sheet for both recording members service hours and keeping attendance.

In its response, VBC explained that the summary we reviewed was the first issue of what has become a monthly report. We recommend that NAVFSO examine the reports that have been submitted since the end of our fieldwork, December 9, 1996, and determine the adequacy of the reporting procedures and the accuracy of the service hours being accumulated.

- V. VBC's method of allocating indirect costs to the grant was inadequate because the base period does not coincide with the period to which the costs are allocated.

Federal regulations (OMB Circular A-122, Attachment A, subparagraph D1 (e)) require that the grantee's base period for allocating indirect costs be the same period in which the benefiting direct costs were incurred. Additionally, the Circular recommends that the base period be the organization's fiscal year, but, in any case, should avoid inequities in the allocation of costs.

We found that VBC's indirect costs for Supplies and Communications were incorrectly allocated using a procedure that is cumbersome and prone to errors and manipulation. VBC develops a monthly allocation percentage based on payroll dollars charged to each grant, a base which would adequately measure the relative degree of benefit on a monthly basis. However, the monthly percentage applied to each payment is for the month when the payment is disbursed and not the month when the cost is incurred. The resulting expense allocation is then charged to the affected grants. The monthly allocation percentage would fluctuate with the variety of activities each month. This variance may be sufficient from month to month to result in an inequitable total allocation at year end. Therefore, making the allocation at the time the invoice is paid does not adequately match the period the cost was incurred to the period the base was incurred and is subject to manipulation. Payments could be held past the end of a month or period when a greater share of the costs could shift to a grant with increasing payroll activity.

We also found that mathematical errors in the manually prepared spreadsheet, and the inclusion of a payroll transaction occurring after the end of the quarter, caused the payroll dollar base to be miscalculated. Of \$700 of operating expenses claimed, we are questioning \$374 as unsupported because of these errors.

We recommend that CNS require NAVFSO and VBC to revise VBC's allocation method so that indirect costs charged to the grant are accurately matched to the benefiting direct grant costs. We further recommend that CNS require NAVFSO to examine VBC's cost allocation plan and report to CNS the adequacy of indirect cost allocation. Lastly, we recommend NAVFSO and VBC enter into a written agreement regarding indirect cost allocation (as described in OMB Circular A-122, Attachment A, subparagraph 6) which accurately defines the method to be used for Federal grants.

In its response, VBC agreed that errors had occurred recording indirect costs but disagreed with our finding that the allocation method was inadequate. We reviewed VBC's explanation and concluded that their discussion primarily concerned allocating direct costs

to the proper grant instead of allocating indirect costs equitably to all grants. We revised our finding to more clearly explain that allocating each indirect expense in the month it is paid does not adequately match it to the activity in the month it was incurred. We also added our recommendation that NAVFSO and VBC enter into a written agreement on indirect cost allocation.

VI. The program activities of the subgrantees were not adequately monitored by NAVFSO, the parent organization, because no procedures were established to collect data on accomplishment of performance objectives.


CNS regulations (45 CFR 2543.51 (a)) require NAVFSO to manage and monitor activities supported by the grant award. Additionally, grant special provision 19 requires NAVFSO to operate the program in accordance with the approved grant application and budget. Further, the grant application established certain performance objectives which were to be measured by collecting data from subgrantees and reporting summary data to CNS each quarter.

We found that NAVFSO had not established procedures to collect the performance data necessary to conduct proper oversight of performance objectives. Additionally, the subgrantee we visited (VBC) had established performance measures that were objectively measurable, but then did not collect adequate data to determine if progress was being made toward the stated objectives. We found that the quantitative monitoring being done by NAVFSO and the subgrantees was limited to the quarterly submission of CNS' own questionnaire regarding administration of the AmeriCorps members.

We recommend CNS require NAVFSO to develop and submit reports that show accumulation of quantitative performance data measuring progress toward approved program objectives.

In its response, NAVFSO stated that it has implemented a system to "improve data gathering, accuracy, and timeliness of reporting" and that "quantitative and qualitative achievements will be measured and assessed for compliance." We also recommend that CNS review the system and its controls to determine if they reliably report performance and outcomes.

This report is intended solely for the information and use of the CNS Office of Inspector General and CNS management. However, this report is a matter of public record and its distribution is not limited.

  
TICHENOR & ASSOCIATES  
Woodbridge, Virginia  
December 9, 1996

# **APPENDIX I**



**AmeriCorps National Service**

CORPORATION  
FOR NATIONAL  
SERVICE

March 11, 1997

Jonathan D. Crowder, Partner  
Tichenor & Associates  
12531 Clipper Drive Suite 202  
Woodbridge, VA 22192

Dear Mr. Crowder,

We have received your draft report dated February 13, 1997 of CNS award number 95ADNDC013 granted to the National Alliance of Veteran Family Service Organization. There is not adequate time within the 30 days to examine in detail the findings. However, the systems issues identified in the report required immediate attention and the Grants Officer has been working with the grantee and is confident that material financial system inadequacies identified in your report have been corrected. Kirby McCollum of my staff has been in contact with Mr. Brian Skadowski of your staff regarding this matter. Other issues will be addressed in the audit resolution process.

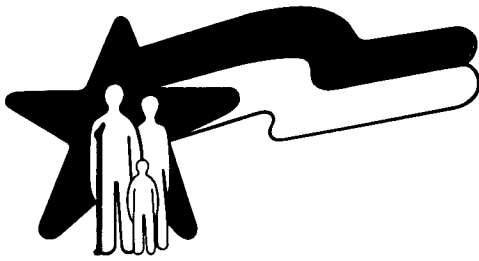
Sincerely,

Michael L. Kenefick  
Director of Grants and Contracts

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Washington, DC 20525  
Telephone 202-606-5000

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## **APPENDIX II**



## National Alliance of Veteran Family Service Organizations

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### Board of Directors

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*University of  
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**Bill Elmore**  
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*Vietnam Veterans  
Leadership Program/  
St. Louis*

**Frank McCarthy**  
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Orange Class  
Assistance Program*

March 19, 1997

Inspector General  
Corporation for National Service  
1201 New York Avenue, N.W.  
Washington, D.C. 20525

### To Whom It May Concern:

This correspondence is to respond to and comment on the Independent Auditor's Report on CNS Award Number 95 ADNDC003 for August 1, 1995 to June 30, 1996. Our response will follow the order of issues and concerns as presented by Tichenor & Associates.

Veterans Benefits Clearing House, Inc. ("VBC"), the sub-grantee reviewed, will respond to their issues and questioned costs as a supplement to this document.

### RESULTS IN BRIEF

**RESPONSE** - The National Alliance of Veterans Family Service Organization, ("NAVFSO") has contracted with the Haymaker Berry Group, Certified Public Accountants, to implement an accounting system that complies with government reporting requirements to safeguard federal funds. Additionally, NAVFSO has implemented and approved a travel policy that complies with federal regulations and requirements (see attached Travel Policy and Haymaker Berry Letter).

VBC's Independent Accountant has reviewed their policies and procedures regarding accounting controls and has made recommendations for strengthening them. Also, NAVFSO's Grant Representative will review VBC's records periodically (at least twice per grant year) for accuracy and timeliness of reporting. Direct training and technical assistance regarding financial and programmatic reports, will be available through NAVFSO, for all sites upon request.



NAVFSO has implemented a grant representative system to provide ongoing monitoring of all sub-grantees. Such monitoring will include but not limited to, site visits at least twice per grant year (more if necessary), regular telephone contacts, technical assistance with programmatic as well as fiscal and reporting requirements and if necessary, will take corrective actions.

Finally, we dispute the majority of the questioned costs of \$10,653 charged to the grant and will elaborate in greater detail as appropriate in this report.

## **SUMMARY OF AWARDED, RECORDED AND QUESTIONED COSTS**

**As of June 30, 1996**

### **FINDINGS AND RECOMMENDATIONS**

**I.** The majority of these issues have been addressed by the Haymaker Berry Group (see the attached Letter). They have implemented the general ledger, will produce accurate and timely reports, and will audit our activities (fiscal and management) throughout the program year.

NAVFSO's grant representatives will be responsible for ensuring that the sub-grantees reports are timely and meet required deadlines. A reporting system has been implemented that requires sub-grantees to submit their reports in advance to meet the overall deadlines. This will allow for the aggregate report to be submitted on time.

NAVFSO is now allocating time actually spent by funding source/grant activities. However, during the period in review, the staff spent a disproportionate amount of time, well in excess of twenty-five (25%) percent on CNS activities. As such, we dispute the questioned cost of \$6,797.00 in salary and benefits.

NAVFSO will contract for the development of an Agency Cost Allocation Plan in order to more precisely and accurately track costs and time. Proposals will be requested by April 15, 1997 and the plan will be developed and started expeditiously, thereafter.

**II.** NAVFSO has implemented a written travel policy, as approved by its Board of Directors (see attached). We do not dispute the former Executive Director's excess travel reimbursement questioned cost of \$1,374. Furthermore, NAVFSO's travel policy now complies with federal regulations and requirements.

A fiscal procedures manual to include internal controls has been developed. It is currently under review by Haymaker Berry Group to insure our efforts are consistent and incorporated with theirs.

Finally, sign off/approval procedures have changed. No one employee can approve, issue, and

sign any disbursements checks without the approval of the Board of Directors.

**III, IV and V.**

VBC will issue a supplemental report to include any corrective action taken and disputes, if any, of the questioned costs. NAVFSO will work with VBC to revise their Cost Allocation method, so that indirect grant costs are accurately matched to the benefitting direct grant costs.

As mentioned before, a grant representative system has been implemented which will greatly improve data gathering, accuracy and timeliness of reporting. Quantitative and qualitative achievements will be measured and assessed for compliance. This will be accomplished in person or by telephone and recorded on a comprehensive grant review form, developed by NAVFSO.

If you should have further comments or questions, please do not hesitate to contact me.

Very truly yours,



Florentino Zamora  
Executive Director  
NAVFSO

Attachments



---

**VETERANS BENEFITS CLEARINGHOUSE, INC.**

**RALPH COOPER**  
EXECUTIVE DIRECTOR

March 18, 1997

Inspector General  
Corporation for National Service  
1201 New York Avenue, N.W.  
Suite 8100  
Washington, DC 20525

**Subgrantee Response To Auditors' Report**

We disagree with the independent auditors' conclusion that Veterans Benefits Clearinghouse, Inc. (VBC)'s accounting system and management controls were inadequate to report grant expenditures and to safeguard federal funds. Their conclusion was based on a limited review of our National Alliance of Veterans Family Service Organizations (NAVFSO) program. This response addresses each of the three conditions noted in their report.

**Auditors' Findings:**

1. VBC's accounting controls were not adequate to prevent unallocable and unallowable costs from being claimed as grantee expenditures.

**Subgrantee Response:**

Contrary to the auditors' conclusion, VBC's system of accounting controls is adequate to prevent unallocable and unallowable costs from being claimed as grant/contract expenditures in spite of the auditors' questioned costs as explained below. The accounting policies and procedures manual, including a comprehensive cost allocation plan have procedures for identifying and segregating unallocable and unallowable costs. This process is initiated at the contract negotiation stage through recording in the general ledger and the job costs systems and cost allocation process through the contract billing system on a monthly basis. Our fiscal employees are very conscious of the unique conditions, requirements and limits of each grant/contract.

VBC had to develop the spreadsheets used for reporting expenses since NAVFSO did not have any reporting format in place. The errors that occurred in Items 1 through 4 in the auditor's report resulted from errors in the formulas in the spreadsheet.

- a. In the member living costs, one week was disallowed as belonging to the next reporting period.
- b. In computing staff costs VBC used the % derived from the budget. The auditors used a different % that resulted in the discrepancy.

The formulas were corrected and the spreadsheet modified to eliminate the errors that occurred initially. It should be noted that this was the first report sent to NAVFSO and the conclusion that it was inadequate was an exaggeration. Once checks and balances were implemented the method of reporting has proved to be a very efficient way to track a fairly complicated program. The report is now completed monthly and has been copied by NAVFSO to its other sites.

The issue of the \$200.00 donation to a private youth program was the result of miscommunication. This nonprofit entity was sponsored and supported by the Public Facilities Department (PFD) of the City of Boston. As a matter of fact, their letterhead bears these facts and they operate out of the offices of PFD.

VBC was told by PFD that we would have to pay \$200.00 to participate in the summer youth program. We were under the impression that the money represented a fee. We paid the money and were sent 10 high school students for 6 weeks. They were paid by The City of Boston and worked with Americorps Veterans Helping Veterans Program to augment the outreach efforts that were initiated by the Americorps director and members. The subsequent acknowledgment indicated that the \$200.00 was a donation and not a requirement, as we were told. In VBC's thinking there is still a question as to whether or not this \$200.00 did not represent a purchase of service since it's members participated and benefited from this event.

**Auditors' Findings:**

2. VBC's procedures for collecting, recording and reporting member service hours were inadequate to determine if members had achieved the requirements to receive educational benefits.

**Subgrantee Response:**

VBC has documented procedures for collecting, recording and reporting member service hours sufficient to meet the requirements of the Americorp's grant special provision 15a. These procedures include the requirement to submit weekly time sheets in triplicate by each member participant to the Program Director who reviews and approves them before it is passed on to the Fiscal Manager. VBC has developed an elaborate reporting format that captures both financial and programmatic data on a monthly basis including current and year-to-date member service hours adequate to determine if a member has sufficiently completed the appropriate number of hours eligible for educational benefits. Therefore it is incorrect and misleading to say that " VBC did not establish or periodically update a master record or log of members earned and accumulated service hours." However, we do agree that there were computation errors in the spreadsheets and we have already taken the necessary steps to correct that.

We have also instituted additional reviews and analytical procedures to ensure that such errors do not go undetected in the future. The process for accumulating member service hours discussed above is generally the only time sheet our Americorps participants are required to fill out. This time sheet is detailed by daily time in/out and is in accordance with the requirements of the Americorps program. The fiscal office summarizes this time sheet into VBC's standard time sheet used to log in the hours in VBC's payroll system to keep track of the cumulative hours worked used to prepare the monthly report to NAVFSO. Again, we agree that there were some errors in the transfer process but the revisions we have made to the process will ensure that such errors are eliminated in the future. However, these errors should not overshadow the fact that VBC has a process for collecting, recording and reporting member service hours and other statistical information relevant to successfully operate the Americorp program.

**Auditors' Findings:**

3.VBC's method to allocate indirect costs to the grant was inadequate because the base period does not coincide with the period the costs are allocated.

**Subgrantee Response:**

We completely disagree with this position. Federal regulations (OMB Circular A-122) provide that a system of allocating indirect costs be reasonable and not absolute and be consistently applied. Our general ledger system is operated in accordance with generally accepted accounting principles which among other things requires accrual method of accounting. Currently, almost all our programs are on a cost reimbursement and most of the funding sources require us to submit evidence of payment of vendor bills including canceled checks before they reimburse us. Under the circumstances, the best alternative is to allocate the expenses paid to the affected contracts. As long as the year-end closing procedures account for unpaid invoices properly in billing the last month of the year there can be no manipulation. VBC has instituted year-end closing procedures to ensure that all bills are properly accrued and charged to the affected contracts and become part of the basis for the last month of the fiscal year's billing. This billing is supported by all evidence of payment obtained subsequent to the year end, including canceled checks, in the July bank statement. In addition, each of our contracts is unique in the sense that an unallowed expense by one is allowed by another. Also, all of our contracts have caps in total and by expense category. The conditions discussed above are designed to ensure that there is no manipulation in the allocation process. Based on the above it is clear that:

- a. Whatever differences resulting from allocating expenses paid instead of expenses incurred by month will net out to an immaterial amount at the end of the fiscal year or grant period if different.
- b. VBC has been using this allocation methodology on a consistent basis for the past several years and it has not been determined to be unreasonable by any

funding authority.

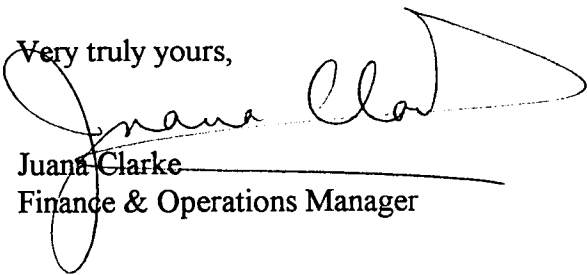
- c. Contrary to the auditor's conclusion, the base period used by VBC in its allocation process does coincide with the period the costs are allocated because the base period is the accounting period - which covers the whole fiscal year given that the costs are incurred within the allowable accounting period. The fact that an expense is incurred in September but was not paid until November, the month in which it was allocated and billed, is not relevant. Since the two monthly periods fall within the same fiscal year in question.

**Conclusion:**

In conclusion, it is apparent that there were some errors in the costs and statistical information submitted to NAVFSO by VBC. However, we do not consider these errors to be material or to be so pervasive to justify the conclusion that VBC's accounting system and management controls were inadequate to report grant expenditures and to safeguard federal funds. The errors are at best spotty and the auditors' scope and methodology are at a minimum inadequate to warrant such a sweeping conclusion about VBC's system of internal accounting and administrative control taken as a whole.

Over its twenty year history of successfully providing a broad range of human services to Veterans and their families, VBC has developed and instituted strong internal control structure policies and procedures including but not limited to accounting, (including a comprehensive cost allocation plan), personnel and program specific operating policies and procedure manuals. These policies and procedures are functioning adequately. However, we do recognize that there are problems in the implementation process and VBC is willing, ready, and able to address these implementation issues as we strive to improve the quality of services that we provide to our community.

Very truly yours,

  
Juana Clarke  
Finance & Operations Manager

  
Ralph Cooper  
Executive Director

CC: Mr. Florentino Zamora, Executive Director, NAVFSO  
Mr. Jonathan D. Crowder, Partner, Tichenor & Associates  
Mr. Bill Anderson (CNS OIG #97-12)